

INCOMING TELEGRAM

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Department of State

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FROM: LONDON

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TO: Secretary of State

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REFERENCES: (A) EMBTEL 4078, MARCH 20, 1956
(B) DEPTTEL 5551, MARCH 23, 1956

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GOVERNMENT HAS INTRODUCED CHANGE IN UK TAX LAW OUTLINED REF.(A). FINANCE BILL, WHICH GIVES PERMANENT EFFECT TO TAX MEASURES ANNOUNCED IN RECENT BUDGET, PROVIDES THAT PERSONS "NOT ORDINARILY RESIDENT" IN UK WILL HENCEFORTH BE TAXED ON "ANY EMOLUMENTS IN RESPECT OF DUTIES PERFORMED IN UK." AMERICAN EMPLOYEES OF US FIRMS HAVE HERETOFORE BEEN TAXED BY BRITISH NOT ON ENTIRE INCOME BUT ONLY ON THAT PORTION RECEIVED IN UK, EVEN THOUGH DUTIES PERFORMED WHOLLY IN BRITAIN.

AMERICAN BUSINESSMEN HERE SAY INITIAL IMPRESSION IS THAT MANY OF THEM MAY HAVE TO LEAVE UK SINCE HEAVY AND STEEPLY PROGRESSIVE BRITISH TAX WILL BE LEVIED ON THEIR ENTIRE SALARIES. THEY SAY SOME U.S. COMPANIES WILL MOVE TO CONTINENT, SOME WILL REPLACE AMERICANS WITH BRITISH MANAGERS. THEY CLAIM TAX CHANGE WILL SERIOUSLY DISCOURAGE U.S. INVESTMENT IN BRITAIN.

PRIOR INTRODUCTION BILL EMB EXPLAINED FULLY TO FINANCIAL SECRETARY TREASURY THE PROBABLE REACTION OF U.S. BUSINESSMEN AND ADVERSE EFFECTS FOR U.K. IF THERE WAS LARGE SCALE EXODUS. HE ADVISED EMB TODAY THAT THESE IMPLICATIONS WERE IN FACT CONSIDERED BY CHANCELLOR. EMB MADE CLEAR U.S. WAS NOT PROTESTING PRINCIPLE OF PROPOSED CHANGE.

FINANCE BILL WILL BE DEBATED OVER COMING WEEKS. HOWEVER, GOVERNMENT UNLIKELY AGREE SIGNIFICANT CHANGE.

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